

## Deloitte Banking Alert

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### Enhancing Transparency in Payment Services: The Wolfsberg Group Payment Transparency Standards

The global financial landscape relies heavily on the efficiency and security of payment services. **Payment Service Providers (PSPs)** play a pivotal role in facilitating these transactions, making it imperative that they adhere to stringent standards for transparency. To maintain the integrity of the financial system and combat illicit financial activities, **The Wolfsberg Group** has introduced **The Payment Transparency Standards**, a guide which provides an in-depth look at these standards and the responsibilities of different categories of PSPs. The Payment Transparency Standards set forth by The Wolfsberg Group establish a **framework** for enhancing **transparency and compliance in the world of payments**. These standards are particularly **crucial** because they pertain to **all categories of PSPs**, each with its own set of responsibilities.

#### Responsibilities of PSPs

- **Debtor Agent PSPs**

Debtor Agent PSPs are tasked with initiating payments, and their responsibilities are multifaceted. These include **identifying, verifying, and conducting customer due diligence (CDD)** on their clients, ensuring that payment messages contain all required information in compliance with relevant regulations, and determining if payments represent **potentially suspicious activities or violate applicable sanctions programs**. They must maintain records that permit message reconstruction as required by local regulations, use fields available in payment messages to facilitate the identification and understanding of payment information, and cooperate with other PSPs when requested to provide information about the parties involved. Additionally, they must **encourage compliance** with these standards throughout their relationships with other **PSPs**.

- **Intermediary Agent PSPs**

Intermediary Agent PSPs are responsible for ensuring compliance with **local laws, regulations, and the rulebook of the Payment Market Infrastructure (PMI)** they work with. They must **maintain risk-based policies and procedures for payments, conduct customer due diligence on PSP customers** whose payments they process under a correspondent relationship, and pass on complete payment information to the next PSP in the chain. Furthermore, they must monitor their **PSP customer's payment** activity based on the information provided in the payment message and retain a record of information received from the debtor agent PSP or previous intermediary agent PSP.

- **Creditor Agent PSPs**

Creditor Agent PSPs must ensure **compliance with local laws and regulations**, maintain **risk-based policies and procedures for payments**, and **conduct full CDD on their customers** (the creditors). They are also responsible for instructing creditors on the appropriate usage of virtual reference numbers. Much like other PSPs, they must determine whether payments received represent potentially suspicious activities or violate applicable sanctions programs.

## Payment Transparency Challenges:

- **Limited Visibility:** Payment transparency is often restricted to the debtor agent PSP, leaving downstream PSPs with inadequate information for sanctions screening and monitoring. Cross-border risks may remain unnoticed.
- **Bundled Payments:** Bundled payments reduce transparency for intermediary PSPs, who may not be aware of the bundled nature. Cooperation among PSPs is essential to share required information.
- **Ambiguity in Payment Flow:** Blurred lines between payment initiation and completion make it challenging to determine a payment's nature, especially in cross-border scenarios.
- **Multiple PSPs Involved:** Involvement of various PSPs with distinct models can heighten financial crime risks. Each PSP must meet regulatory obligations based on their role.

## Ongoing Compliance and Future Considerations

Compliance with **Anti-Money Laundering (AML)** and **Counter-Terrorism Financing (CTF)** laws and regulations is an essential commitment for all providers of payment services. **The Wolfsberg Group** has outlined the key elements of an effective AML/CTF program, which includes complying with relevant laws, providing useful information to **government agencies**, and **implementing risk-based controls to mitigate financial risks**.

As the landscape of payment services continues to evolve, and with the emergence of **non-bank entities as payment initiators**, it is crucial that all PSPs **adhere to Payment Transparency Standards**. These standards not only **bolster transparency and security in the financial system** but also contribute to the prevention of illicit financial activities.

Today, payments can be originated by entities that are not banks, **expanding the set of “gate-keepers” to the financial system**. It is the debtor agent PSP originating the payment – bank or non-bank – that is uniquely positioned to ensure that the payment provides the **maximum required level of transparency** at its outset. Thus, the **principal responsibility** for ensuring payment **transparency** compliance begins with the debtor agent PSP.

## Conclusion

**The Payment Transparency Standards** set forth by **The Wolfsberg Group** provide a comprehensive framework for ensuring transparency and compliance in payment services. Different categories of PSPs have specific responsibilities in this regard, with Debtor Agent PSPs playing a central role in initiating payments with the highest level of transparency. It is incumbent upon all PSPs to embrace these standards, as they play a vital role in maintaining a transparent, secure, and trustworthy global financial system. Transparent transactions enable **sanctions screening and mandated transaction monitoring**. Inadequate information hampers compliance, causing delays and increased costs.

## How Deloitte can help?

- Review of the current AML/CFT framework implemented by the payment service institutions to ensure compliance with regulatory requirements;
- Review/elaboration of internal policies and procedures in the field; of Know Your Customer (KYC), Customer Due Diligence (CDD) and International Sanctions (IS);
- Provide support in remediation of any deficiencies identified during the controls from authorities;
- Provide ad-hoc advice in any AML/CFT related topics.

For further questions regarding the aspects mentioned in this alert, please don't hesitate to contact us.



**Dimitrios Goranitis**

Deloitte Global leader FSI Risk and Regulatory  
Central Europe FSI leader  
Tel: +40 751 250 884  
Email: [digoranitis@deloittece.com](mailto:digoranitis@deloittece.com)



**Meral Caiali**

FSI Risk & Regulatory Advisory  
Manager, Deloitte Central Europe  
Tel: +40 730 077 883  
Email: [mcaiali@deloittece.com](mailto:mcaiali@deloittece.com)

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